



## COUNCILMEMBER CARL DeMAIO


FIFTH DISTRICT

CITY OF SAN DIEGO

### MEMORANDUM

DATE: February 4, 2010

TO: Audit Committee Members

FROM: Councilmember Carl DeMaio 

RE: Reforms to the "Bid-to-Goal" Employee Bonus Program

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On May 11, 2009 the Audit Committee directed the City Auditor to conduct a performance audit of the Bid-to-Goal employee bonus program in the city's Utilities department. On February 2, the City Auditor released a report detailing the findings of his audit which raise serious concerns on how the Bid-to-Goal program is structured.

The utilities department houses the water and sewer operations of the city – and is entirely funded by the monthly water bills our residents pay. At a time when San Diego's working families are already struggling, in the past three years, residents have seen their water and sewer rates increase by over 35% -- and additional rate increases loom on the horizon.

Among the findings of the audit:

- \$28 million in ratepayer monies have been paid out in bonuses since 2006. This year over 1400 bonuses were awarded – ranging from \$1200 to \$6200
- \$10.7 million in supposed cost savings from the incentive program were overstated
- Goals set for bonuses were not adequately documented, payouts were not externally audited and 40% of goals were incorrectly reported
- While some efficiencies are documented, the report notes many are "attributable to other factors" and "efficiencies would have occurred to some extent through other efforts."

The Audit Committee is scheduled to take up this audit and the associated recommendations at its February 22<sup>nd</sup> meeting. At that meeting, I will request that the following actions be taken by the Audit Committee.

**1. Endorse the 14 Recommendations Contained in the Audit Report**

The City Auditor's report provides 14 recommendations broken into the following categories:

- Improving "the accuracy of Bid-to-Goal documentation and transparency of the program and ensure that managers and other stakeholders have a key source of information upon which to base future assessments of the program"
- "Fully improv[ing] the transparency, management, and credibility of the bid process..."
- Ensuring that "gainsharing goals continue to improve and employees of all levels are involved in developing these goals."
- Improving "the accuracy of Bid-to-Goal savings calculations and ensur[ing] that program results are reliable"

**2. Require 90 Day Status Reports from Management on Implementation of Audit Recommendations**

The findings of inefficiencies and the potential cost savings associated with the recommendations stand to achieve significant savings for ratepayers. Given the potential impact, we cannot allow this performance audit to simply sit on a shelf.

In order to ensure that the auditor's recommendations are indeed implemented, I request that the Audit Committee receive a progress report from management within 90 days of the Audit Committee's hearing on the Bid-to-Goal Audit. This report to the Committee should detail the specific steps taken by management to comply with the recommendations of the audit.

**3. Recommend to the Mayor and City Council that Real Competitive Bids Be Used to Replace "Simulated" Bids**

Voters overwhelmingly approved Managed Competition in 2006, and to date, not one city service has been subjected to competitive bidding. While the use of a "mock" bid in an employee incentive program may help to achieve cost savings if used and administered correctly, the most efficient way to truly establish reliable benchmarks is through the use of actual competitive bids.

Given the issues raised by the Bid-to-Goal audit, it is imperative that management implement the audit recommendations and concurrently identify and pursue the steps needed to subject these city services to Managed Competition.

I suggest that the Audit Committee make an official recommendation to the Mayor and the City Council that actual competitive bids replace the simulated bids currently utilized for this program as soon as possible.

In order to accomplish this, the city needs to identify the appropriate steps required by state labor laws, such as meeting and conferring in good faith with its affected bargaining units.

I want to applaud our City Auditor and his staff for an exceptionally valuable performance audit of this flawed program. As the Audit Committee, we must insist on major changes to the program – and regularly conduct oversight on implementation of those changes – until these bonuses are administered in a manner that protects and respects our city ratepayers.

I look forward to hearing additional ideas for reform at the February 22<sup>nd</sup> hearing.

CC: Honorable Mayor and City Councilmembers  
Eduardo Luna, City Auditor  
Independent Budget Analyst